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NETWORK FOR NEW ENERGY CHOICES

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March 14, 2007

The Hon. John Howard
Public Service Commission of South Carolina
101 Executive Center Drive
Suite 100
Columbia, SC 29210

2005-385-E

Dear Commissioner Howard:

The enclosed report – **"Freeing the Grid"** – is the first study ever to rank and grade the effectiveness of existing statewide net metering programs using actual participation data from the Energy Information Administration (EIA). By comparing regulations with customer participation rates from 2002-2004, NNEC has identified "best practices" and "worst practices" from the experience of 34 states.

Some key findings are:

• Fair Compensation for Excess Generation is Not a Subsidy

When a net metered customer is generating more electricity than the on-site load, the excess is contributed to the grid and sold by the utility to other customers at retail rates. The utility is therefore collecting from the consuming customers the fixed costs associated with those units of electricity. To charge the generators for those fixed costs as well (by failing to fairly compensate them for excess generation) allows utilities to collect twice for the same service - once from the net metered generator and once from the consumer to whom they are selling the excess electricity.

• Net Metered Systems Increase Grid Reliability

Empirical studies show that many net metered systems (particularly solar PV systems) generate excess electricity during periods of peak demand, offsetting the most expensive peaking reserves. Rather than generating electricity when costs are low and "selling" it when costs are high, most net metered systems contribute to grid stability by reducing demand during periods of greatest system strain. This increased reliability benefits regulated utilities even though customer-generators have paid for the infrastructure that is providing it.

• External Disconnect Switches May Increase the Danger to Line Workers

An investigation of external disconnect switches found that they are redundant with internal automatic shut-off switches required on all certified systems and that they are rarely, if ever,

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used by utility line workers. In fact, an external switch requirement may present a danger to workers both by giving them a false sense of security and by requiring them to traverse private property to access the switches.

• Efforts to Protect the Economic Interests of Utilities Often Come at the Expense of Other In-State Industries

Net metering is often essential to the cost equations when technology and manufacturing companies are planning to invest in on-site renewable energy systems. Net metering rules that exclude commercial and industrial customers cause in-state industries to suffer higher operational costs, hurting their competitiveness. Indiana's ITAMCO, for example, was saddled with higher air conditioning expenses at its 100,000-square-foot factory where precision work requires precise climate controls.

Read about these findings and more in "Freeing the Grid".

Based on NNEC's findings, a team of researchers at Vermont Law School (led by former Vermont Public Service Board Chair Michael Dworkin), crafted model net metering regulations for Commissioners seeking to improve their programs. Those model regulations are included in Chapter VI of the report.

As you consider how net metering could benefit your state, we invite you to peruse "Freeing the Grid". We welcome your questions and look forward to helping you bring new energy choices to the citizens of your state.

Sincerely,

Chris Cooper
Executive Director

Enclosures